

The Uninsured

Issue

With nearly 45 million Americans under the age of 65 without health insurance – one in six Americans – addressing the uninsured population is a major issue in the upcoming election. Health insurance affects access to health care as well as the financial well-being of families. Thus, both the affordability of and access to insurance are of concern.

Background¹

Nearly two-thirds of Americans under the age of 65 receive health insurance coverage as an employer benefit (156 million). While Medicare covers virtually all those who are 65 years or older, the nonelderly who do not have access to or cannot afford private insurance go with out health coverage unless they qualify for public programs. The number of uninsured has risen from about 31 million Americans in 1987 to 45 million in 2003 (12.9% in 1987 to 15.6% of the total population in 2003). Given the rising cost of health insurance, the number of uninsured is likely to grow in the absence of policy interventions.

Why is being uninsured a problem? Lack of health insurance compromises the health and financial well-being of individuals and families, but leaving so many uninsured also takes a toll on society.

Health insurance makes a difference in whether and when people get necessary medical care, where they get their care, and ultimately, how healthy people are. Compared with the insured, the uninsured are less likely to have a regular doctor, less likely to obtain care when needed, and are less apt to get timely preventive and routine care, such as immunizations for children or annual check-ups and mammograms for adults. Further, there are often serious consequences of not obtaining appropriate care. The uninsured tend to be sicker when they are diagnosed, have higher rates of preventable and untreated illness, and are also more likely to be hospitalized for conditions like uncontrolled diabetes that could have been avoided. Having health insurance improves health overall and could reduce mortality rates for the uninsured by 10 to 15 percent.²

Medical bills can mount quickly for an uninsured person. Insurance helps reduce the financial uncertainty associated with health care, as illness and health care needs are not always predictable and care can be very expensive. In 2000, about 50 percent of the one million Americans who filed for bankruptcy did so because of medical bills and other problems arising from serious illness or injury. Nearly half of the uninsured report that they are unable to pay their medical bills, and more than a third say that they had been contacted by a collection agency about unpaid medical bills. Fear of unpaid bills is a major reason why many of the uninsured do not get the care they need.³

Having a significant portion of the population without health insurance has societal costs as well. When an uninsured person receives care but cannot pay the medical bill, the cost must be borne by others and puts a particular burden on public health and medical resources.

Who are the uninsured? The uninsured are predominantly adults from low-income working families. Over 80 percent of the uninsured come from families with a full-time or part-time worker and nearly two-thirds come from low-income families (less than \$30,000 for a family of three). In addition, those at the highest risk of being uninsured include the poor, young adults, those living in southern and western states, minorities, and noncitizens. While Medicaid and the State Children's Health Insurance Program (SCHIP) have expanded in recent years to cover more children, public coverage for adults is limited. Among the nonelderly, the chances of experiencing a long spell without health insurance (12 months or longer) are highest for individuals with low incomes and young adults.

Why don't all workers have coverage through their employer? Most Americans obtain coverage as a tax-free fringe benefit through an employer-sponsored health plan. However, employer-sponsored health insurance is voluntary—businesses are not legally required to offer a health benefit. Also, not all employees qualify for coverage, many employees cannot afford their share of the premium, and employees can choose not to participate. Coverage varies by industry, firm size, locale, and other factors. Certain types of industries, among them construction, retail, and personal services (e.g., child care) are less likely to provide insurance than manufacturing, transportation, or government service. Workers in small firms or who have part-time or seasonal jobs are less likely to have health insurance offered as a benefit by their employers. Low-wage workers are the least likely to be offered health insurance and, when offered, may not be able to afford their share of the premium.

What is the role of public health insurance programs? Medicaid and SCHIP provide health insurance coverage to certain low-income populations that meet eligibility requirements, but assistance is primarily targeted toward low-income children. Public coverage expansions for children helped to offset declines in employer-sponsored coverage in recent years. However, nine million children remain uninsured. The role of public programs for adults is far more limited, covering only some low-income parents and disabled individuals and leaving most childless adults ineligible, regardless of how poor they are. Public coverage is especially important during economic downturns as more people become eligible as they move into lower income categories and lose employer-based coverage, but, at the same time, during economic downturns state revenue constraints put financial pressure on public coverage.

Why is the uninsured population growing? Changes in the economy and rising health care costs have led to declines in employer-sponsored coverage in recent years and these declines are likely to continue, especially if health care costs continue to rise at their current double digit pace. In 2004, annual premiums averaged \$9,950 for family coverage and \$3,695 for single coverage. The employee share of premiums has been on the rise and now averages \$47 per month for single coverage and \$222 for family coverage.⁴ Since 2000, premiums for family coverage have risen nearly 60 percent.⁵

Changes in the economy are also contributing to growth in the uninsured as jobs shift from industries such as manufacturing that tend to provide health insurance benefits to those, such as the service industry, that are less likely to provide health benefits. Jobs are also shifting to small businesses, which are less likely to offer health insurance. Some uninsured are eligible for coverage through their jobs but turn it down, usually because they cannot afford or do not want to pay the required employee share of the premium. Those insured by Medicaid and SCHIP – primarily low-income children and some adults – may lose coverage if their incomes rise, or if state budget constraints lead to reductions in eligibility.

Options for Covering the Uninsured and the 2004 Debate

While most candidates reflect the public view that some type of government response is needed to reduce the number of uninsured Americans, there is little consensus on the solution. Proposals differ in terms of their scope and costs, and are often controversial because of their effects on different stakeholders.

Proposed solutions range from adoption of a single payer government health insurance system to narrow proposals targeting certain categories of the uninsured. In recent years, most proposals emerging from Congress or the White House would expand health insurance coverage incrementally, helping particular groups of the uninsured – such as poor or near-poor children, workers in small firms, or the near-elderly. Some, however, aim for more expansive approaches that could potentially result in most Americans being insured. Major approaches include:

Expanding coverage through existing public health coverage programs: With Medicaid, SCHIP, and Medicare providing health insurance coverage to tens of millions of the population, some candidates propose further expansions of these programs to a broader group of children and adults. In the case of Medicaid and SCHIP, proposals to expand coverage to the parents of eligible children or including poor, childless adults have been put forward by some states and are now a part of the national debate. Some policymakers suggest that Medicare can serve as the vehicle for coverage

expansions, especially for the near-elderly, many whom increasingly face losing employer-based health coverage and find it difficult or prohibitively expensive to buy health insurance in the private market.

The public program approach could reach many low-income people, but only with a sufficient, stable commitment of either state and/or federal government money to either adequately fund public coverage or subsidize the cost to individuals of buying into the programs. Additional challenges include educating the public about coverage opportunities and simplifying enrollment procedures for these expansions. There are currently millions of poor uninsured who could be covered through a concerted effort to sign up those now eligible, but not enrolled in Medicaid or SCHIP. However, enrolling children and some of their parents who are currently eligible for Medicaid and SCHIP will ultimately increase the cost of these programs, and require more dedicated government funds.

Expanding access to group coverage: Recognizing that the American health system relies heavily on an employer-based coverage approach and that nearly two-thirds of the nonelderly get coverage through employers, some proposals would make it easier for small employers and the self-employed to band into larger health insurance purchasing pools, potentially giving them large group negotiating power when purchasing insurance. A related proposal would let the uninsured purchase coverage through the Federal Employees Health Benefit Program (FEHBP) or through state public employee health programs. Establishing purchasing pools or allowing businesses and individuals to join existing pools of coverage could lower premiums and broaden the choice of policies available to the uninsured. However, many experts believe that these proposals would not reduce the number of uninsured significantly unless the government helps subsidize the premiums for the health coverage or, at least, provides some form of federal reinsurance for high cost enrollees.

Recognizing that expanding group purchasing may not be enough to reduce the uninsured population, some policymakers propose offering new tax incentives to employers to offer and partially subsidize the cost of health insurance for their employees. Employer tax credits can, however, be very costly to the government. Studies have shown that employers who currently do not offer insurance to their workers will not do so unless most of the cost of the insurance is covered by the tax credit.

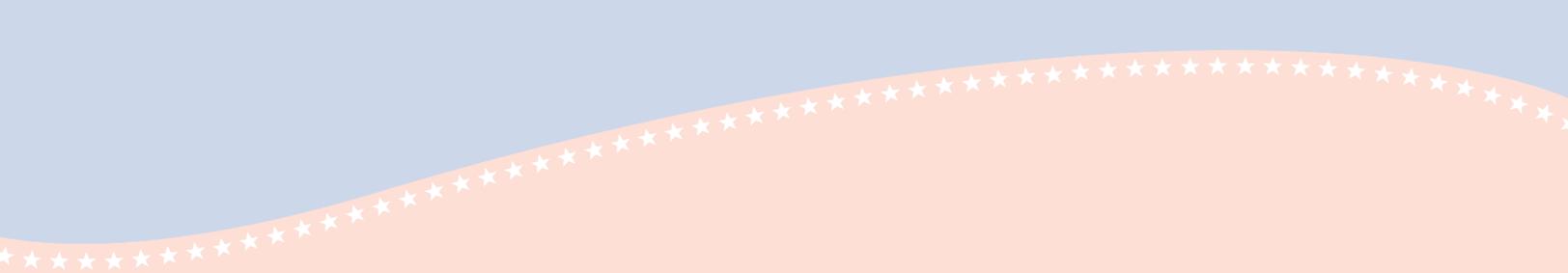
Subsidizing the purchase of individual private health coverage: While job-based coverage is a dominant feature of the American health system, some experts and policymakers believe it is an outdated approach in the country's new economy where workers change employers several times during their career and are unable to maintain their health coverage across jobs. Offering tax credits or deductions to help offset the cost of health insurance for the uninsured is an approach backed by some policymakers, although proposals vary by whom they would assist. Some would target tax provisions to the low-income; others would assist all uninsured, regardless of income.

Tax-based approaches could reduce the number of uninsured, but the cost to the government could be high, since those least able to afford insurance would require substantial financial assistance to pay their premiums. Moreover, such tax credits are likely to also be used by many people who are already insured, providing greater tax equity, but also increasing the cost for coverage.

Another set of proposals would change federal tax laws to make it easier for people to take advantage of tax-free health savings accounts (HSAs) and similar types of arrangements. An HSA is a tax-free way to set aside money in interest-bearing accounts to pay uncovered medical care expenses, coupled with high-deductible insurance. Proponents argue that these arrangements would help reduce the uninsured population and control costs by making individuals more cost-conscious. Opponents counter that HSAs tend to attract healthy people, driving up the cost of health insurance for others, and that HSAs are unlikely to reduce the number of uninsured because the premiums and deductibles are unaffordable for those most in need of insurance.

Assessing Candidate Positions

Various policy proposals have been offered to expand health coverage to the nation's uninsured population. Although most proposals are incremental and build on our current system, they vary in



whom they target, what strategies they use to expand insurance, and how much they cost. Given the size of our uninsured population and the large share who are low-income, ultimately, options to expand health insurance to most of the uninsured will require a substantial financial commitment from government.

Included below are a series of questions to help evaluate the different proposals set forth by policymakers and candidates in the 2004 election.

- Who would gain coverage under the proposal? What segments of the population does the proposal target?
- What share of the uninsured would be covered as a result of the proposal?
- Would the proposal affect those who already have health insurance? If so, how?
- How much would the proposal cost, and how would it be financed?
- Would the proposal expand public programs like Medicaid, S-CHIP, or Medicare?
- Does the proposal provide financial assistance to help people purchase private or public insurance through tax credits or some other mechanism?
- Given the cost of health insurance policies, is the subsidy adequate for those for whom it is targeted?
- Does the proposal provide a mechanism for reducing premium costs?

Prepared by Health Policy Alternatives, Inc.

¹ Unless otherwise noted, data are from the March 2004 Current Population Survey (CPS) as analyzed and reported in: U.S. Bureau of the Census, *Income, Poverty, and Health Insurance Coverage in the United States: 2003*. August 2004.

² Hadley, J. 2002. Sicker and poorer: The consequences of being uninsured. Prepared for the Kaiser Commission on Medicaid and the Uninsured. Available at <http://www.kff.org/uninsured/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=13970>.

³ http://www.kff.org/uninsured/upload/14346_1.pdf.

⁴ Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits, 2004 Annual Survey*.

⁵ Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits, 2004 Annual Survey*.

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